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C O N F I D E N T I A L SECTION 01 OF 02 PORT AU PRINCE 000163

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DEPARTMENT PASS AID FOR LAC

E.O. 12958: DECL: 01/24/2018
TAGS: ECON EINV EFIN ETRD PGOV HA
SUBJECT: MINISTER OF FINANCE TOUTS MODEST ECONOMIC PROGRESS WHILE A US INVESTOR GETS A HAITIAN REALITY CHECK

Classified By: Ambassador Janet A. Sanderson, reason 1.5(b)

¶1. This message contains commercial proprietary information, see para 7.

¶2. (SBU) Summary. In a meeting February 23, Haitian Minister of Finance Daniel Dorsainvil, told Ambassador and USAID Director that the Haitian economy made modest progress in 2006-2007. He estimated that GDP growth in FY07-08 will be somewhere in the range of 3.8-4.5 percent, up from an estimated 3.2 percent the previous year. Inflation kicked up at the end of calendar year 2007, fueled by a sharp increase in prices of basic commodities. The government still struggles to spend budgeted funds for domestic investment, although the Minister said that the situation was improving as more public works projects come on line. Thus far, economic problems in the U.S. have yet to affect Haiti. HOPE has produced some modest increases in job creation and companies are examining investment options here, provided HOPE legistlation is extended. That being said, government bureaucracy and the involvement of the president in the investment process, has worried some foreign investors and does not bode well for a streamlined, transparent investment process. End Summary.

¶3. (SBU) Minister of Finance Daniel Dorsainvil told Ambassador and USAID Director January 23 that Haiti's GDP growth rate for FY 07/08 should hit the higher end of the 3.7-4.5 percent range, up from 3.2 percent the previous year. (Note. Many observers believe the growth rate during the year was lower. End note.) Government revenues continue to climb and the Haitian gourde has stabilized at 36-38 gourde/dollar. In 2007, following three consecutive years of growth, Haiti's GDP finally returned to 1991 levels. Dorsainvil claimed that government ministries are now beginning to work through moneys allocated to them for domestic investment in the FY 06-07 budget, in large part due to recent expenditures by the Ministry of Public Works. (Note. At the end of the fiscal year on September 30, the GOH had only spent 20 percent of budgetary allocations. End Note.)

¶4. (SBU) Inflation, Dorsainvil noted, remains a prime concern. After falling through the year, inflation returned to double digits in December at 10 percent. The price increase has been fueled by a sharp rise in basic consumer commodities, including rice, beans and milk products. The GOH flipfop on imports of Dominican poultry products, following the announcement of the presence of a strain of avian flu in the other part of the island has also affected prices. Dorsainvil has said that the government expected the bump up, but he acknowledged that public reaction to cost of living, or "la vie chere" as it is known here is increasingly

negative.

¶5. (SBU) Dorsainvil has seen little indication thus far that economic woes in the U.S., Haiti's predominant trade partner, have begun to impact the country's economy. He suggested that any fallout from the U.S. markets would be first felt in Haiti's remittance accounts. However, thus far, remittances are running 8 percent above last year's totals. Remittances remain key to Haiti's economic future, the Minister added, with more than 60 percent of all Haitians receiving some form of transfer payment from abroad.

¶6. (SBU) Dorsainvil is optimistic about Haiti's investment outlook. He reports that two Brazilian textile firms, fleeing an appreciating currency at home, have moved operations to Haiti. They have set up shop in the Port-au-Prince industrial zone of Sonapi and, once operational in March, will export to the US under the HOPE legislation. The Minister estimates that HOPE has created upwards of 3000 jobs thus far. We understand there are other possible investments in the textile sector, including from US companies, coming on line this year.

¶7. (SBU) Haiti continues to wrestle with the best way to deal with investors. Royal Caribbean (RC) Cruise Line, already the major investor in the northern vacation port of Labadee, reports that their dols 20 million new investment to build facilities for its next generation of vessels is running into rough seas. According to RC officials, the deal which includes the direct investment and a dols 25 million loan for the construction of a wharf, ran into difficulties when President Rene Preval intervened personally in the negotiations. He demanded higher port fees and significant contract changes, reversing decisions negotiated by his

Ministers of Finance and Tourism. The cruise line officials note that Preval's proposed fee structure is significantly higher than that in the rest of the Caribbean and would be hard to justify in light of Haiti's undeveloped tourism industry. Furthermore, his reluctance to extend the lease for Labadee makes the site less attractive for investment. RC currently turns over more than dols 300,000 per month in port fees to the national coffers or more than dols 3.5 million annually; their proposed increase would nearly double that figure. The company has now made a final offer: if that does not produce an agreement, RC claims it will walk away.

¶8. (C) Comment. Dorsainvil's comments about the macroeconomics climate are indeed encouraging but the real challenge for today's economy remains the creation of jobs for the 60 plus percent of the work force who are unemployed. As prices increase, the pressure for job creation will intensify. Failure to address this issue decisively, effectively and with dispatch will undermine Haiti's success on the macro level. In this regard, Preval's involvement on investment issues is not a plus. The president, whose tendency towards micromanagement is well known and who remains a figure of some suspicion within the business community here, needs to step back. Haiti needs investment success stories, and a transparent, efficient and rapid approval process to attract those investments. Another layer in the decision process, even if that layer is the president, is not value added.
SANDERSON